

“Allocation of Authority” in the China’s Social Welfare System

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May 2017

Abstract:

For many countries, it is difficult to have institutional changes in the welfare system given the existence of vested interest, multiple veto players and constraints from the rules of formal institutions. While policies and institutions are resilient in some policy areas in the Chinese social welfare system, there have been large scale changes in some selected areas. By analysing recent cases in the Chinese social policy reform, this paper attempts to understand the peculiarity from the perspective of authority allocation.

Keywords: China, Policymaking, Social policy, Political Economy

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Vested interests are argued to be the major reasons for lack of changes of welfare institutions in developed countries (e.g. adoption and expansion of major social programmes). First, it is hard to have institutional changes not only due to the direct costs of institutional change but institutional costs for policymakers to overcome the resistance from strong vested interest groups under the welfare state (Pierson 1994; 1996). Second, large scale reforms may need a very high momentum to earn support since there is uncertainty about the outcomes of institutional changes (Acemoglu & Robinson 2007, Shepsle 1986). Third, under legislative institutions in developed countries, there are usually many veto players in the process of institutional change. Given the presence of a large number of veto players, it is very difficult to achieve institutional changes (Tsebelis 2002).

Bureaucracy is also considered an important interest group in the positive political economics literature (McNollgast 2007). To overcome the vested interests from bureaucrats, politicians can use ex post policy intervention and ex ante control institutions such as sanctions for bureaucrats and requirements of administrative procedure (Weingast and Moran 1983, Marshall 1988, McNollgast 2007).

In China, vested interests are also very relevant for the social welfare reform. In particular, departmental interests from Chinese bureaucracy are critical in policymaking and implementation. Chinese political system is labelled as “fragmented authoritarianism” (Lieberthal and Oksenberg, 1988). According to this literature, policymaking and implementation in China were not very effective, as decision-making was fragmented and

disjointed across various government departments (Lieberthal 1992). Each department has a strong incentive to maximise its own interests and marshal information accordingly. Also, with the advantage of expertise in information and knowledge, bureaucrats in social policy areas are even more influential (Huang 2013). In addition, local government can be considered as bureaucrats with “departmental interests”. Major social policies are managed and implemented at the local level and local officials have different objectives from the policymakers at the central level. One outstanding example is the rural poverty alleviation. Most rural poverty alleviation programmes were area-based and development oriented. Also, local government managed poverty alleviation fund transferred from upper level government. Local government in this case has incentive to implement policy in a way to make sure they can receive transfers for poverty alleviation from upper level government.

In this context, it is very likely to be difficult, politically and institutionally, to reform the social welfare institutions given that there were strong departmental interests from bureaucracy.

However, in a relatively short period of time since 2003, changes in social welfare system in China have been dramatic. Social expenditure has increased significantly since 2003. The government expenditure on social security and social assistance, education and health, increased by an average annual rate of 21.4 per cent between 2003 and 2013 (MOF, various years). More importantly, there have been significant institutional changes. Health insurance and pension programmes coverages have been extended to social groups previously not covered by social welfare programmes. For example, over 800 million rural residents nationwide have been enrolled in rural health insurances. Another example of social policy reform is related to rural poverty alleviation policies. In recent years, various household oriented poverty alleviation

programmes such as rural minimum livelihood guarantee have been implemented since early 2000's, which implies significant institutional changes in the policy area of poverty alleviation. In 2015, about 49 million rural low-income individuals claim benefit from the rural minimum livelihood guarantee scheme².

In short, the puzzle in this context is that, in contrast to those in some developed countries, policymakers in China have managed to make institutional changes in the social welfare system in a relatively short period, given bureaucrats, representing the status quo vested interests, may veto against the reform. In this paper, we make an attempt to understand this puzzle. We argue that “Separating authority” within bureaucracy is a very useful strategy to achieve institutional changes. In contrast to the conventional interpretation that fragmentary structure of decision making in China reflects the lower policy capacity, we argue that dramatic institutional changes are only possible by “separating authority”, under which the policymaker can avoid the capture of vested interests and reduce costs of institutional changes. To initiate a reform, policymakers (e.g. the central government) can separate the authority of a general policy domain into two or more sub policy areas between the department which is associated with vested interests and another government department, which does not have vested interests in the existing policy package and has the incentive to initiate policy change. There are two reasons that a reform initiated in this manner can avoid the capture of the existing vested interests. First, the authority of a new policy domain is allocated to a government department. The government department responsible for the policy change has authority in this policy domain. Second, the existing vested interests are kept intact. Therefore, it is less likely that the policy changes will be blocked by the

² <http://www.mca.gov.cn/article/sj/tjgb/201607/20160700001136.shtml> accessed December 30, 2016.

existing vested interest. In short, “separating the authority” among government departments may open a window for reform by addressing the incentive compatibility for the bureaucracy.

In this paper, we use the process-tracing methodology to study two cases of social policy reform: rural health insurance and rural minimum livelihood guarantee scheme. The policy processes in these two policy areas are traced to illustrate the role of “separating authority” in institutional changes in the social policy reform. From these cases, it is also important to note that while the strategy to separate the authority can align the incentive of bureaucrats with the policy changes, the information issue cannot be fully addressed. Costs of information and costs of coordination may rise with the fragmented authority.

The rest of the paper is arranged as follows. The concept of “separating authority” is discussed after reviewing the literature. We discuss the authority allocation in the context of the Chinese political institutions. The policy processes of rural health insurance and poverty alleviation are traced afterwards to illustrate the role of “separating authority” in these policy areas.

Policymakers and Bureaucrats

In many countries, policy initiatives are expected to be decided by voting processes in the legislature. While the policymakers decide the policy targets, bureaucracy is indispensable since bureaucrats implement the policies initiated by the policymakers. In China, policymakers usually are leaders at the central government (Chen and Naughton 2016; Gilli, Li and Qian 2016).

Policymakers at the central government form their policy agenda and all important policy reforms have to be endorsed by the leaders at the central level.

In general, bureaucrats include both central and local officials who are responsible for the enforcement and implementation of policies. In the context of China, the role of bureaucrats is especially critical for two reasons. First, the rules of regulation are set by bureaucrats; it is well recorded in the literature that public policy in China is a product of bureaucratic bargaining (Lieberthal and Oksenberg 1988:4). Policymakers at the central level usually release policy initiatives with very high generality and in consequence the bargaining and negotiation among stakeholders are done within bureaucracy (Chen and Naughton 2016). Compared to bureaucrats in Mao-era China, present-day bureaucrats are even more influential and have incentives to pursue their goals strategically in the process of policymaking (Huang 2013:11). Second, bureaucrats have broad discretion over policy implementation in China and are exempt from the political controls of the legislature. Unlike regulatory entities in many other countries, where regulatory agencies are institutionally separated from the ordinary bureaucracy as well as politicians (Gilardi and Maggetti 2011), in China “the executive branch has predominated in the formulation and implementation of regulatory laws and policies” (Tam and Yang 2005: 6).

Objectives, Resource and Strategies for Bureaucrats

Similar to bureaucrats in developed countries, bureaucrats in China are likely to maximize the resource they can control (e.g. budget, physical and human resources) (Shi and Shi 2011). Also, bureaucrats in China, especially local officials, can be promoted if they can meet the performance targets set by the central government or upper level governments. Another objective

of bureaucrats, therefore, is to meet these performance targets. Resource that the bureaucracy control includes information and expertise in their own policy area. In addition, the bureaucrats also control physical and human resources for implementing policies.

Local bureaucrats, with their knowledge and understanding of the needs of local residents, were best positioned to allocate resources to meet local social and welfare needs. Nevertheless, the incentive of local bureaucrats is not always aligned with the policymaker's. The performance evaluation system for local bureaucrats encouraged them to make more effort to coordinate local bureaus for the promotion of economic growth (Li and Zhou, 2005). The outcomes of social policies were less significant and measurable than economic outcomes when evaluating officials (Gao, 2015). Local officials, therefore, lacked the incentive to strive for social policy implementation, and consequently, coordination among departments for social policy implementation was less effective. Further, given the tight fiscal conditions in many subnational governments (Guess and Ma, 2015), a larger portion of local fiscal resources was allocated to promote economic growth, leaving a tight budget for social programmes. Thus, local bureaus had incentives to save administrative costs by fulfilling only the minimum requirements of social programmes imposed by higher authorities.

Bureaucracy literature in the developmental state & delegation

In the developmental state literature, the capacity of Bureaucracy is critical in the process of economic development (Pepinsky et al., 2017). But also importantly, the bureaucracy is embedded in the economy but disinterested. (Evans 1995).

The Misalignment between Bureaucracy and Policymakers

From the literature of bureaucracy, whether bureaucrats have sufficient knowledge/information regarding to policy implementation/outcomes and whether there is the conflict of interest (i.e. incentive) between bureaucrats and policymakers are two major determinants for policy implementation (Gailmard and Patty 2012, McNollgast 2007).

Institutional arrangement to ensure the policy agenda of the policymakers could be implemented to address both information and incentive issues is highlighted in the literature. It could be ex post such as sanctions if bureaucrats deviate from the policy design. However, it is more likely to use ex ante controls for politicians to avoid high costs from the ex post controls given that many of ex post controls have to go through time-consuming political processes. Weingast and Moran (1983) argues that committees in the U.S. Congress, via their agenda setting power, are critical to control bureaucracy as a possible ex ante control. Also, Weingast and Marshall (1988) and McNollgast (2007) highlight the importance of administrative procedure as another ex ante control of the bureaucracy.

For the case of China, there are institutions to control bureaucrats such as small leading groups formed by officials from different government departments or joint meeting among government ministries (Gilli, Li and Qian 2016, Qian 2017). Also, the political willingness of leaders may matter. For example, Chen and Naughton (2016) use the case of research policy implementation

under Premiere Wen Jiabao. In this case, Premiere Wen issued a series of policy guidelines to ensure the policy implementation to be align with the policy design.

Allocation of “Authority”

“Authority” is defined with a bundle of decision rights. These decision rights include the power to initiate projects, ratify and approve actions, monitor subordinate’s performance as well as exact obedience (Bolton and Dewatripont 2012).

The central government is the entity to decide how to allocate the authority to implement social policy reform. Different from countries where formal political structure and the process of the legislature can largely define the political agenda and authority allocation, the policy making process relies on a relatively flexible arrangement of authority allocation. The forms of authority allocation include delegation/centralization; restructuring and separating/consolidating in an organization (Bolton and Dewatripont 2012, Gibbons, et al, 2012).

There are two features regarding the authority allocation in social policymaking in China. First, via the endorsement from administrative procedure, each government department has a clearly defined policy domain and other government departments recognize this as status quo. Central ministries are usually assigned their major tasks based on the policy domain by the State Council and the detail of this assignment has been announced every year in action plans circulated by the State Council. In these action plans, tasks and the ministries which are responsible for them are listed explicitly. In consequence, policy domain of different central ministries can be inferred

from these documents. For example, in the 2009 action plan released by the State council for health reform³, the Ministry of Health (MOH) has been assigned as the department responsible for rural health insurance. In the annual action plan released in 2007⁴, Ministry of Civil Affairs (MCA) had been assigned as the department responsible for the rural minimum livelihood guarantee programmes. In these two cases, the policy domains of MCA and MOH have been defined in these government document explicitly. The boundary among policy domains is to some degree defined explicitly in the state council's documents. While there is some overlapping in policy domains, there is always a ministry worked as a coordinator for all ministries involved in a policy domain.

Second, in its own policy domain, a government department has authority in implementing policies and discretion in designing policies. Bureaucrats who are assigned with policy implementation have authority over policies in their own policy domains but not on others. Different from many other countries where the executive branch is separated from politicians, “the executive branch has predominated in the formulation and implementation of regulatory laws and policies” in China (Tam and Yang 2005: 6). In other words, for a given policy domain, the bureaucrats in charge of this domain are not likely to be influenced by policymakers or bureaucrats from other policy areas.

³ http://www.gov.cn/zwggk/2009-07/23/content_1372946.htm

⁴ http://www.gov.cn/zhengce/content/2008-03/28/content_1742.htm

“Separating Authority” as a strategy: *Mechanism of “Separating authority”*

“Separating authority” refers to the strategy that policymakers deliberately divide a policy reform into multiple sub-policy areas. Different government departments will be allocated with the authority to be in charge of these sub policy areas.

To circumvent vested interests, the policymakers can deliberately allocate authority of a policy (sub) area, which is supposed to be a new policy area, to a government department which has the incentive to start a policy reform. In this new policy area, this government department has authority while vested interests associated with other departments remain intact in related policy areas. In this context, the endorsement from departments responsible for related policy areas may not be necessary for the reform but coordination provided by these government departments can be useful in policy implementation.

Methodology:

Process-tracing methodology has been adopted in this study to discuss the policy changes in two cases of social policy reform: rural health insurances and rural social assistance programmes.

Benchmark condition of rural health insurance and Rural social assistance

Rural Health Insurances

After the dissolution of the central planning system in the 1980's, the Chinese government gradually retreated from the health sector. In urban areas, many SOEs were privatized,

reorganized, or even closed. With reducing profitability, SOEs have difficulties financing health care. Financial coverage for urban residents declined significantly. In rural areas, the commune model of organizing agricultural production was replaced by the “Household Responsibility System” under which land is allocated to individual families and production and marketing decisions are decentralized to the family level. The collective fund mechanism to finance health care was no longer sustainable and CMS was gradually phased out.

By year 2000, out-of-pocket payment accounted for 60% of total health expenditure. Between 1990 and 2000, out-of-pocket expenditure increased by 900%. Government health expenditure only accounted for about 15% of the total in 2000. The rest of the health expenditure is funded by social insurance plans, private health insurance, etc.

TABLE 1 EXTENT OF HEALTH INSURANCE COVERAGE (%)

	Urban			Rural		
	2003	1998	1993	2003	1998	1993
BHI*	30.4	N/A	N/A	1.5	N/A	N/A
GIS/LIS	8.6	38.9	66.41	0.3	1.7	3.41
CMS	6.6	2.7	1.62	9.5	6.6	9.81
Other social insurance	2.2	10.9	4.44	1.2	3.0	2.34
Private insurance	5.6	3.3	0.25	8.3	1.4	0.33
No insurance	44.8	44.1	27.28	79.0	87.3	84.11

* BHI refers to Basic Health Insurance Scheme. Government Insurance Scheme (GIS) covered government employees and their dependents, while the Labour Insurance Scheme (LIS) covered SOE workers and (with reduced benefits) their dependents.

Source: National Survey on Health Service in 1993, 1998 and 2003.

Providing financial coverage for rural residents had been included in the reform agenda of the Hu-Wen administration. "Fragmenting" method has been employed in this context since 2000's.

Incentive of the government agency

Before 2003, only workers in the urban formal sector were covered by social health insurances. These social health insurances had been designed and implemented by the ministry of labour and social security and local bureaus of social security. Benefit level of these social insurances largely had been set on the basis of formal sector income level (Mok and Qian 2016). In this case, if rural residents were included in the social health insurances programmes, the benefit level has to be decreased to keep the budget financially sustainable.

After 2003, rural health care was defined as one of the responsibilities of Ministry of Health. MOH was willing to initiate rural health insurance to achieve better performance in its own policy domain for several reasons. First, initiating a rural health insurance can help to finance rural health care service providers, which are under MOH. Rural primary care clinics had financial difficulties an initiating rural health insurance can be very helpful in finding these providers. Second, access to health care service for rural residents will be improved with rural health insurance.

Initiation of the programme after 2003

New Cooperative Medical Scheme started in pilot sites in 2003 and expanded to the whole nation in 2006. In 2014, the total number of enrolment reached 736 million and the amount of reimbursement reached RMB 289 Billion.

Table 2 traces the policy process for policy changes in the rural health insurance.

Table 2: policy processes for the rural social health insurance.

Year	Policy Guideline	Major initiative about rural social health insurance
1997	“Some opinions about developing and improving rural cooperative medical scheme”	Local health bureau should play a supportive role for building up rural cooperative medical scheme
1998	“Guideline for restricting State Council “	Ministry of Labor and Social security was allocated authority to manage all social health insurances
2003	“Some opinions about establishing New Rural Cooperative Medical Scheme “	Local health bureaus (under vertical control of MOH) was granted the authority of implementing pilot social health insurance in rural areas
2006	“The announcement to speed up the reform of New Rural Cooperative Medical Scheme”	New Rural Cooperative Medical Scheme was to be implemented nationwide and MOH was going to be the leading ministry for this reform

Rural social assistance

Benchmark for the rural poverty alleviation (from 1980’s to 2007)

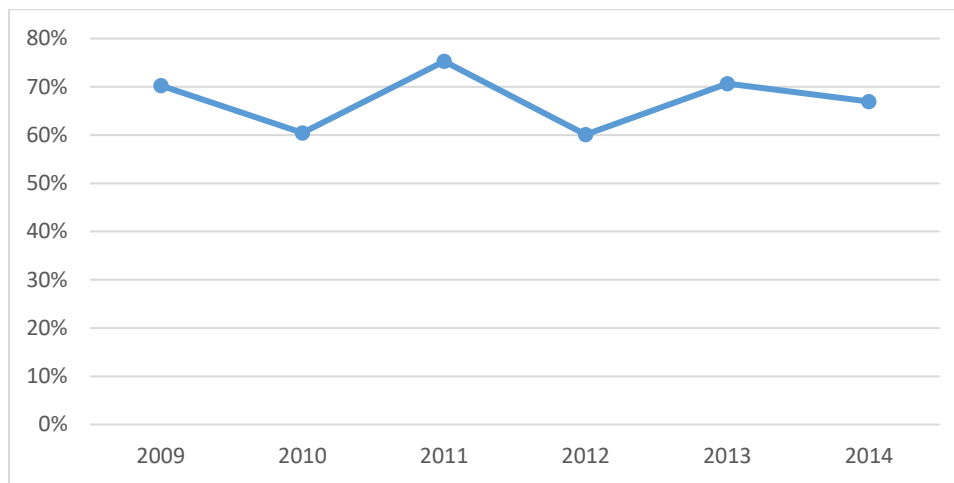
Between the 1980’s and 2000’s, poverty reduction strategies for economic development and social development are largely area-based. In the 1980’s, 331 key national poverty counties were nominated and resources for poverty reduction shifted towards economic development and revenue generating activities in these counties. a new poverty reduction guideline, the 8-7 plan for poverty reduction between 1994 and 2001, was released. The program was thus named to

reflect its objective of lifting 80 million rural poor out of poverty within seven years. Programs such as subsidized loans, food-for-work and budgetary development fund covered 592 national-level poverty-stricken counties. In this phase, the number of rural poor below the national poverty line was reduced to 26 million in 2000.

Area-based poverty reduction strategies have problems in targeting rural poor. Many beneficiaries of the poverty reduction programmes are not the rural poor. Like poverty reduction programmes in other countries, an “elite capture” phenomenon is evident in China’s poverty reduction programmes. “Elite capture” refers to the phenomenon that political or economic elites rather than the poor are more likely to benefit from the development programmes (Platteau 2004). Some studies have shown that richer residents in national-level poverty-stricken counties benefit more from poverty reduction programmes. For example, there was not only the existence of elite capture but also the widening of income inequality in Inner Mongolia, between 2000 and 2010 (Zhang 2014).

Both rural poverty reduction and rural social assistance are financed by both central and local government. Rural social assistance programme has mainly financed by the central government (Figure 1).

Figure 1: Share of central government in total rural minimum livelihood expenditure



Source: Ministry of Civil Affairs, Statistical Communiqué on Development of Social Service Undertakings, various years

Table 3 traces policy changes in rural social assistance programmes.

Table 3: Policy processes for the rural social assistance

Year	Policy Guideline	Major initiative about rural social health insurance
1994	“The 8-7 plan for poverty alleviation”	Local government was responsible for poverty alleviation. Development oriented poverty alleviation was highlighted as the major strategy for poverty alleviation
2001	“The outline for the poverty alleviation in rural China (2001-2010)”	Development oriented poverty alleviation again was highlighted as the major strategy for poverty alleviation
2007	“The announcement to establish the rural minimum livelihood guarantee”	Rural social assistance is important for rural poverty alleviation. Ministry of Civil affairs and local civil affairs bureaus were granted the authority.
2011	“New Development of Rural Poverty reduction “	Both development oriented poverty alleviation and social assistance were important strategies

Incentive of the government agency

MCA is the agency responsible for providing financial support to low income households in rural areas. MCA has incentive to initiate a programme which can improve the living conditions of rural low income households.

According to some recent studies, local officials in China are more likely to be promoted if they have achieved better economic performance such as growth of GDP or fiscal revenue (Li and Zhou 2005; Shih et al 2012). tasks such as poverty alleviation, which are less rewarding may not be able to draw sufficient attention and efforts from local officials. At the local level, poverty alleviation bureau/office is usually short of resource as other departments such as bureau of civil affairs and education bureau are given higher priority in the policy agenda. For example, in a national level poverty stricken county in Shanxi province, there are reportedly only five staff who are in charge of all poverty reduction programmes in 2016.⁵

Table 4: Separating authority among different government departments

Policy area	New sub policy area with policy initiatives	Department with authority in the existing policy areas	Department with authority in the new sub policy area
Social health insurance	Rural social health insurance	Ministry of Labor and Social Security	Ministry of Health
Poverty Alleviation	Rural social assistance	Local (county) government	Ministry of civil affairs

⁵ *Outlook Weekly*, 25 April 2016, pp. 14-15.

Side effects of the Fragmented Structure of Authority

Table 4 shows the major characteristics of the policy reforms. While the strategy of separating authority is useful in implementing swift policy changes, there are some possible side effects.

Universal coverage supposed to be welfare improving:

Universal social insurance is argued to be more useful in reducing inequality and poverty compared to targeted social programmes (Korpi & Palme, 1998; Rothstein, 2001). Further, compared to voluntary insurance programmes, universal social insurance can also overcome market failures such as ‘adverse selection’ (Rothschild & Stiglitz, 1976).

The coordination among different government departments is an serious concern for poverty alleviation in rural China. For example, for policies under targeted poverty alleviation, the National Bureau of Statistics, Ministry of Civil Affairs and the Leading Group Office of Poverty Alleviation under the State Council each manages one set of statistics on the rural poor.

According to National Bureau of Statistics, the total number of rural poor in 2014 was about 70 million. However, the figure churned out by the Leading Group Office of Poverty Alleviation under the State Council was about 80 million in 2014.⁶ Also, there were about 49 million rural residents claiming benefit from the *Dibao* programmes managed by the Ministry of Civil Affairs.

⁶ http://news.china.com.cn/2015-10/12/content_36791376.htm, accessed 28 June 2016.

The discrepancy in statistics has made policy implementation difficult. A unified database for the rural poor is thus necessary.

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